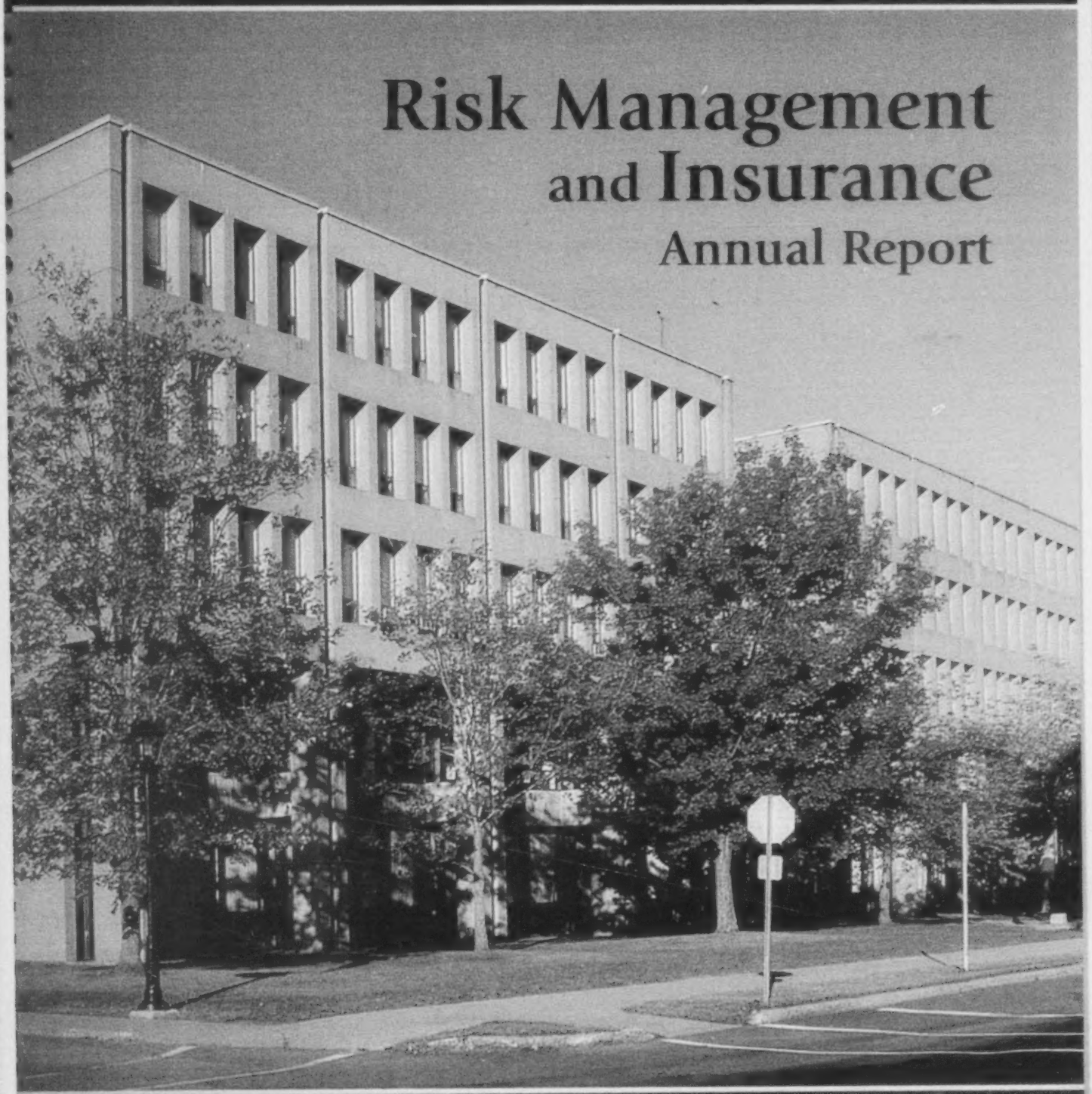
2015-2016

Risk Management and Insurance

Annual Report



PT10-45162

Prince Edward Island
CANADA

Department of Finance

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Message from the Minister

The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

May it please your Honour:

Pursuant to the *Financial Administration Act* it is my privilege to submit the Annual Report of the Risk Management and Insurance Section and the Financial Statement of the PEI Self-Insurance and Risk Management Fund for the period ending March 31, 2016.

Respectfully submitted,

Allen F Roach

Hon. Allen F. Roach
Minister of Finance

Message from the Manager

Hon. Allen F. Roach
Minister of Finance
Second Floor South, Shaw Building
95 Rochford Street
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Mr. Roach:

It is my privilege to submit the annual report of the Risk Management and Insurance (RM&I) Section of Finance. Included in this report are the audited financial statements of the PEI Self-Insurance and Risk Management Fund for the year ending March 31st, 2016.

Respectfully submitted,

Dan Campbell, CPA
Secretary to Treasury Board

Mandate of the Risk Management and Insurance Section (RM&I)

Mandate

Our section's mandate is to develop, implement and maintain Government's risk management and self-insurance programs, with the goal of eliminating or minimizing the potential for loss to Government departments, crown corporations, agencies, commissions, Health PEI and school boards/districts. The objective is to provide a quality service which protects public sector assets and programs, to control losses when they occur, by providing a professional claims management service to our insureds and the public we serve. We focus on providing professional risk management and insurance advice on a daily basis, which is essential to the many programs our clients deliver to the general population.

Section Overview

In 1986 the PEI Self-Insurance and Risk Management (Fund) was established by the Government of Prince Edward Island under the *Financial Administration Act*. The volatile insurance market of the day caused premiums to escalate, and there was a reluctance to insure Government sector entities. To counter the effects of escalating premiums and diminishing coverage limits, it was the decision of Government to establish its own self-insurance program. For 10 years the program administered by the Risk Management and Insurance Fund (RMI) insured the liability exposures for Government, the health sector, and school boards. The program has been responsible for building a surplus fund of approximately $5 million after paying claim and administration costs. In addition, RMI has established risk and claims management services designed specifically for Government and all associated PEI public sector organizations.

In 1997 property premiums with private insurers were increasing. The increased rates were a reflection of trends in the world marketplace and not the loss experience of the Province. A decision was made to increase our loss retention of $500,000 on Government, School and Health Sector properties. Treasury Board approved including these exposures under the umbrella of the existing self-insurance fund. Stop loss insurance with an aggregate of $1 million is purchased to limit Government's exposure for any one policy year and for any one loss. Although the events of September 2001 had a devastating effect on the insurance marketplace, Government was able to maintain stability with its rates, due to the capacity of the fund. In 2005, the program was further expanded to insure the entire automobile fleets of Government, Health and School Boards/Districts under the Fund. Government Departments, Agencies, Commissions, Crown Corporations and School Boards realized an immediate premium savings of approximately 40 per cent. In 2011 due to soft market conditions we were able to negotiate a reduction of our property loss retention from $500,000 to $250,000. This year our property loss retention on Government locations was $250,000. Schools were $250,000 and Health Sector was $100,000.

The growth of the Fund, over the last 30 years, has required our section to expand its risk capacity and the professional services needed for our clients to manage new risks, more effectively. We now have a diversified book of business and only special risks are insured in the private sector market. The *Financial Administration Act* serves as our guide to limit eligibility to reporting entities and those who use the *Treasury Board Policy and Procedure Manual* as their management guide.

World terrorism events and volatile climate change makes managing risk more challenging. Risk Management and Insurance continues to expand programs and services to our clients in Government and other public sector entities funded by Government. We have been able to negotiate favorable premiums with a balance between very low risk property and liability exposures, with those which by nature of the business conducted are more likely to have claims made against them. The insurance market for the past several years has been competitive and forecasters are predicting no significant premium increases for 2016/2017.

There is a growing trend for more claims to be brought against Government and other public sector entities including School Boards who are responsible for managing the risks associated with our public education system. There are also growing numbers of malpractice suits against medical professionals, which name Health PEI Institutions and employees as defendants. Risk Management & Insurance is more vigilant than ever in managing files, which have potential for significant legal costs, before actual litigation.

Services Provided by Risk Management & Insurance to Government Departments, Crown Corporations, Agencies, Commissions, Health PEI and School Boards/Districts

* School playground inspections are completed in conjunction with school board maintenance and administration staff.
* Coordinate consultant studies on major projects and critical risk-management issues of the day.
* Answer frequent inquiries and provide direction to management as it relates to loss control, legal liability issues and current claim files.
* Perform risk assessments for specific clients and develop with them in partnership an effective risk-management strategy.
* Negotiate settlements of claim files with the general public, or alternatively provide understandable explanations why particular claims will not be paid.
* Coordinate seminars and make presentations to clients of Risk Management and Insurance. The seminars are designed to target risk exposures/concerns of the client, using practical risk management practices and insurance principles.
* Provide consultation services to Procurement Services regarding tenders or RFP's, with recommendations on insurance requirements for vendors and specific language which transfers risk from Government to the service provider.
* Facilitation with Health PEI management in negotiating contracts with a broad sector of service providers with an objective to confirm vendors are adequately insured, and the contract language is fair in terms of legal responsibilities.
* Review IT contracts and confirm with vendors a Government entity can and will provide insurance coverages as required in the contract, and recommend language which will make the service providers accept legal responsibility for their programs and services.
* Support a program where qualified persons meet with families and health care professionals to examine why a particular client had an unfavorable and unexpected experience. These disclosures minimize the need for litigation, in order for family members to receive the desired details.

SUMMARY

Although the demands for services with immediate time lines is an inevitable trend in our business, we have become more efficient in how we manage the needs of our clients. In our experience clients who have internal resources with risk management and insurance knowledge can respond and provide direction with minimum consultation. For this reason we are providing more training and direction to selected individuals. Our section can approve a policy and procedure for clients rather than develop it for them.

The insurance marketplace sees Government and related entities as a source to generate revenue for their business, as a broker, or insurer. Naturally we welcome their invitations to do business, but want to maintain a level playing field when it comes to competitive quotations for our risks to be insured above and beyond our self retention values.

Brokers and insurers must be willing to insure a broad spectrum of risks in our liability, property, fiduciary and auto portfolios. It is not uncommon for us to solicit quotations for specific risks we do not wish to expose our Fund to, for a variety of loss control or insurance reasons. We now solicit quotations from brokers electronically so all brokers are sent the same information at the same time.

In recent years we have been actively involved in the contract process, to minimize risks associated with doing business with private sector vendors. The demands for our expertise in this area has expanded particularly with the Health Sector, as they realize the potential risk exposures with the many students training in their environment, as well as the large number of vendors providing IT support, and other goods and services to our hospitals, manors, and senior homes.

Health PEI has made significant changes to improve all efficiencies with contract management. There has also been consultations with their procurement division to minimize risk exposures in the tender processes while ensuring competitive pricing.

We are encouraged to see the cooperation and resources allocated towards initiatives such as "Business Continuity Management". These are risk management strategies developed by senior management throughout Government. This strategic management exercise will minimize risk to Government services and assets. An "Enterprise Risk Management" approach will minimize the risk of a duplication of resources and omissions in managing risks throughout the public sector.

The "Excess Insurers" of Government and Health PEI have reviewed our claims and risk management procedures and found these to meet or exceed their standards. Our departmental accounting professionals continue to extract and create reports which provide further insight on the financial performance and assist in preparing our section for the annual audit by the Office of the Auditor General.

Each year our Section has a detailed audit performed by the Auditor General's Office. The financial records of the Fund are closely scrutinized as well as other administrative accounts. The Auditor General's Office will make recommendations and our Section responds on how and when these may be implemented.

SOMMAIRE

Bien que la demande de services sans délai est une tendance inévitable dans notre domaine, nous avons amélioré notre efficacité en matière de gestion des besoins des clients. Selon notre expérience, les clients qui ont des ressources internes en gestion de risque et une connaissance des assurances peuvent répondre aux clients et les orienter avec une consultation minimale. Pour cette raison, nous offrons une formation et une orientation supplémentaire à certaines personnes. Notre section peut approuver une politique et une procédure pour les clients plutôt que de l'élaborer pour eux.

Le marché de l'assurance perçoit le gouvernement et les entités connexes comme générateurs de revenus pour leur entreprise, courtier ou assureur. Évidemment, nous sommes ouverts à leurs invitations à faire affaire, mais nous voulons maintenir les règles du jeu équitables quand vient le moment d'obtenir des présentations concurrentielles de prix pour nos risques afin d'être assurés au-delà de nos propres valeurs de rétention.

Les courtiers d'assurance et les assureurs doivent être disposés à assurer un vaste échantillon de risques dans nos portfolios de responsabilité, propriété, fiducies et automobiles. Il arrive fréquemment que nous sollicitions des propositions de prix pour des risques particuliers auxquels nous ne voulons pas exposer le fonds pour des raisons différentes de perte de maîtrise et d'assurances. Nous sollicitons maintenant des propositions de prix par voie électronique pour que tous les courtiers d'assurance reçoivent la même information au même moment.

Dans les dernières années, nous avons participé activement au processus d'attribution de contrats afin de minimiser les risques associés aux affaires auprès des fournisseurs du secteur public. Les demandes pour notre expertise dans ce domaine ont augmenté en particulier dans le secteur de la santé, au moment où ils réalisent les risques de responsabilité potentiels en raison des nombreux étudiants qui suivent une formation dans leur milieu, ainsi qu'avec un grand nombre de fournisseurs offrant du soutien TI et d'autres biens et services dans nos hôpitaux et nos foyers de soins.

Santé Î.-P.-É. a apporté des changements importants afin d'améliorer l'efficacité dans la gestion des contrats. Des consultations ont également eu lieu avec la Direction des achats en vue de réduire les risques associés au processus d'appel d'offres tout en assurant des prix concurrentiels.

Il est encourageant de voir la coopération et les ressources que reçoivent des initiatives telles que les plans de continuité des activités. Ces stratégies de gestion de risques ont été mises au point par la haute direction dans l'ensemble du gouvernement. Cet exercice de gestion stratégique minimisera le risque que comportent les services et biens du gouvernement. Une approche axée sur la gestion du risque d'entreprise minimisera le risque du double emploi de ressources et des omissions dans l'ensemble du secteur public.

Certains assureurs du gouvernement et de Santé Î.-P.-É. ont révisé nos procédures de gestion des risques et de réclamation. Celles-ci semblent respecter leurs normes ou même aller au-delà de leurs normes. Les comptables professionnels du ministère continuent d'extraire des données et de créer des rapports qui peuvent servir à l'analyse du rendement du Fonds et à la préparation à la vérification annuelle effectuée par le Bureau du vérificateur général.

Chaque année, le Bureau du vérificateur général réalise une vérification détaillée pour notre Section. Les dossiers financiers du Fonds, ainsi que d'autres comptes administratifs, sont examinés de près.

CLAIMS/INCIDENTS ACTIVITY REPORT

Claims

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Property	25	21	27	34	30
Auto	55	49	57	68	52
Liability *	64	101	91	117	95
TOTAL:	144	171	175	219	177

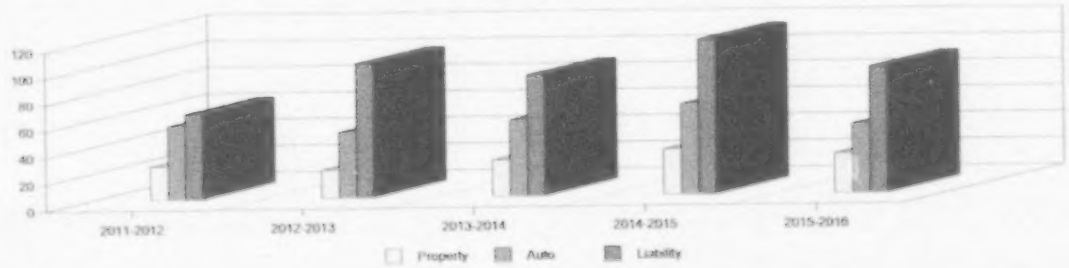
*Note: Liability Claims for 2014-2015 were incorrect. Actual Liability Claims in Fiscal Year 2014-2015 were 117 and not 67 as previously reported. Error has now been corrected.

Incidents

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
School (I)	1486	1011	1494	1439	1682
Property (I)	2	5	5	10	10
Auto (I)	17	10	15	19	28
Liability (I)	95	104	158	140	120
TOTAL:	1600	1130	1672	1608	1840

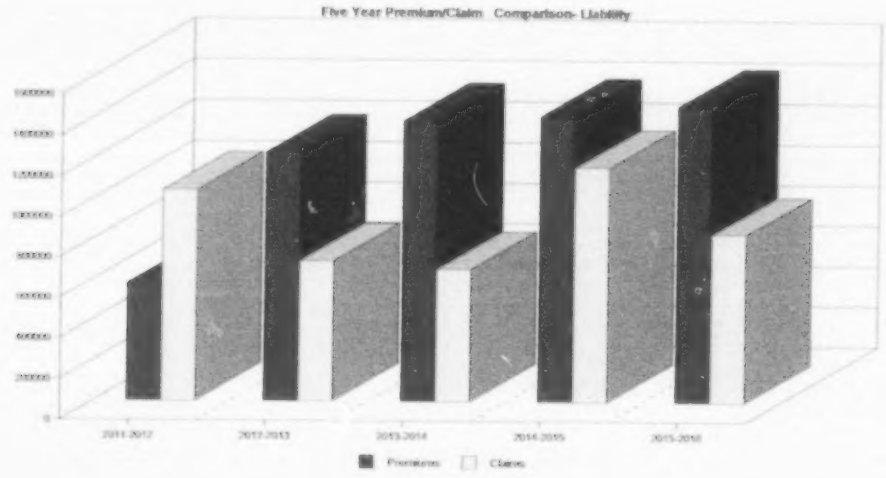
Incidents (I) = Number of Written Reports Received for Each Class of Incident and Files Opened in the Event a Claim is pursued.

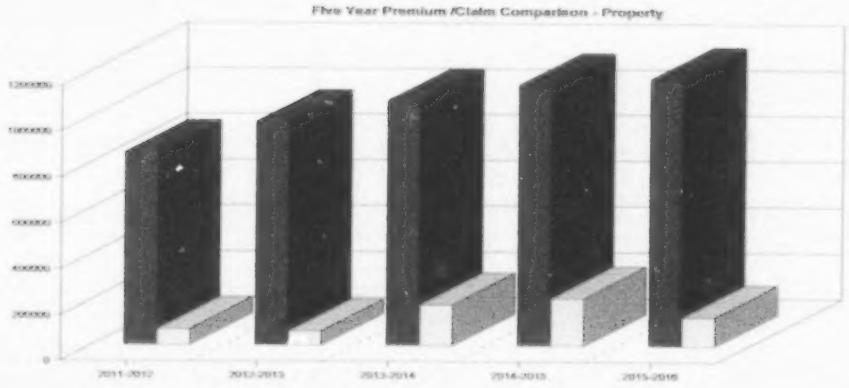
Claims Activity 2011-2016

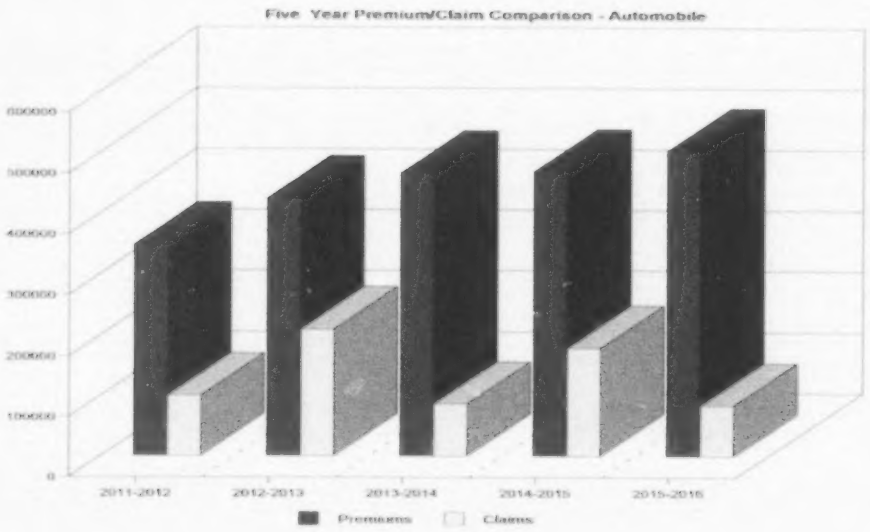


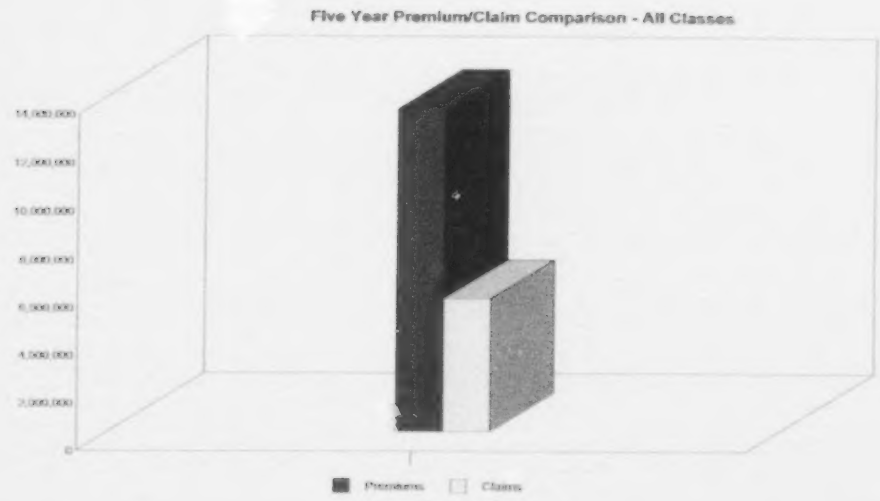
Incident Activity 2011-2016

FIVE YEAR PREMIUM/CLAIM COMPARISON









Loss Ratios

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Liability	180%	56%	47%	82%	56%
Property	8%	6%	16%	18%	11%
Automobile	29%	52%	19%	38%	17%

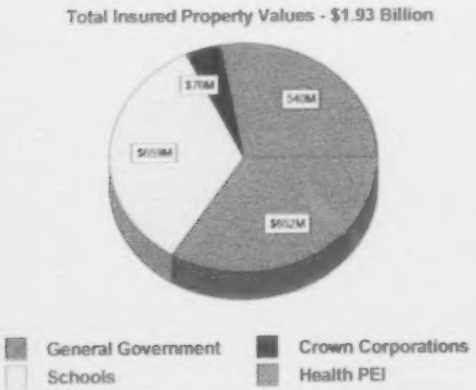
Five Year Loss Ratio for Self Insured Risk Management Fund all classes 42%

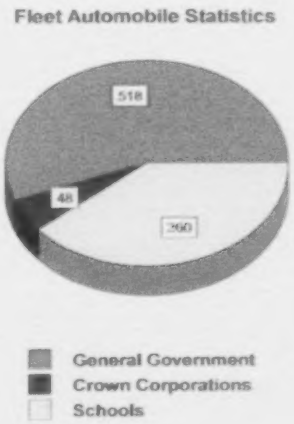
Loss Ratios are compiled for each fiscal year in order to establish whether current premiums charged are adequate to maintain the Self Insurance Risk Management Fund. Premiums are net after payments for excess insurance purchased over and above self insured retentions. Premiums for Property and Automobile include payment from General Government which cover deductibles under property insurance and physical damage claims to owned automobiles under the automobile insurance program. Property premiums include $98,000.00 allocation and automobile premiums include a $42,000,00 allocation. Claim statistics for the loss ratios are derived for each fiscal year using the Insurance & Risk Management Information System (IRMIS). File Contents Listings, which are reviewed each year. Outstanding reserves and net claims costs are combined to arrive at the total claim exposure. Once Premium and Claim statistics are complied the total amount of the claims are divided into the premium and multiplied by 100% in order to arrive at the Loss Ratio.

INSURED PROPERTY VALUES/AUTO FLEET STATISTICS

Insured Property Values (Building/Equipment/Contents)

Insured	Number of Locations	Building Values	Contractors Equipment Values	Content Values	Total
General Government	456	$428,669,392	$40,575,671	$70,861,000	$540,106,063
Crown Corporations	60	$47,709,440	$3,002,746	$25,255,000	$75,967,186
Schools	69	$598,831,475		$59,883,147	$658,714,622
Health PEI	32	$509,918,819		$142,225,855	$652,144,674
TOTAL:	617	$1,585,129,126	$43,578,417	$298,225,002	$1,926,932,545





Staff

Marie Kemp, CIP
Insurance Officer

Wendy LaGrange, CIP
Risk Management Officer

Lorna Jenkins
Finance Administrative Officer

P. E. I. SELF -INSURANCE
AND RISK MANAGEMENT FUND
FINANCIAL STATEMENTS
MARCH 31, 2016

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

Treasury Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews internal financial reports on a regular basis and externally audited financial statements annually.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Self-Insurance and Risk Management Fund and can meet when required.

On behalf of the Prince Edward Island Self-Insurance and Risk Management Fund

Dan Campbell, CFA
Secretary to Treasury Board

Marie Kemp
Insurance Officer

August 22, 2016

Prince Edward Island | Île-du-Prince-Édouard

Office of the
Auditor General

PO Box 2000, Charlottetown PE
Canada C1A 7N8

Bureau du
vérificateur général

C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Members of Treasury Board:

I have audited the financial statements of the **Prince Edward Island Self-Insurance and Risk Management Fund**, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2016, and the results of its operations, changes in net financial assets, and cash flow for the year then ended in accordance with Canadian public sector accounting standards.

B. Jane MacAdam

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown, Prince Edward Island
August 22, 2016

PRINCE EDWARD ISLAND
SELF-INSURANCE AND RISK MANAGEMENT FUND
Statement of Financial Position
March 31, 2016

	2016	2015
	$	$
Financial Assets		
Accounts receivable (Note 4)	105,420	121,050
Due from the Province of Prince Edward Island (Note 5)	15,024,786	13,164,090
	15,130,206	13,285,140
Liabilities		
Accounts payable and accrued liabilities	13,637	16,747
Reserve for unsettled claims (Note 7)	7,283,534	5,961,595
	7,297,171	5,978,342
Net Financial Assets	7,833,035	7,306,798
Non Financial Assets		
Prepaid expenses	56,655	57,314
Accumulated Surplus	7,889,690	7,364,112

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of Treasury Board:

Allen A Roach
Chair

Richard Brown
Member

PRINCE EDWARD ISLAND
SELF-INSURANCE AND RISK MANAGEMENT FUND
Statement of Operations and Accumulated Surplus
for the year ended March 31, 2016

	Budget 2016	2016	2015
	$	$	$
Revenues			
Insurance premiums (Note 8)	4,555,000	4,568,004	4,471,149
Grant in lieu of interest (Note 5)	175,000	175,000	175,000
Claim recoveries (Note 9)	150,000	351,041	228,126
Interest	-	-	7,908
	4,880,000	5,094,045	4,882,183
Expenses			
Claims (Note 7)	2,800,000	2,772,987	2,266,127
Consulting (Note 10)	133,000	131,010	102,010
Insurance premiums (Note 11)	1,533,000	1,449,975	1,443,498
Office and travel	13,600	10,673	10,160
Salary and benefits	200,400	203,822	252,811
	4,680,000	4,568,467	4,074,606
Annual Surplus	200,000	525,578	807,577
Accumulated Surplus, beginning of year	7,364,112	7,364,112	6,556,535
Accumulated Surplus, end of year	7,564,112	7,889,690	7,364,112

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND
SELF-INSURANCE AND RISK MANAGEMENT FUND
Statement of Changes in Net Financial Assets
for the year ended March 31, 2016

	Budget 2016	2016	2015
	$	$	$
Net Financial Assets, beginning of year	7,306,798	7,306,798	6,499,221
Change in year:			
Annual surplus	200,000	525,578	807,577
Prepaid expenses	-	659	-
	200,000	526,237	807,577
Net Financial Assets, end of year	7,506,798	7,833,035	7,306,798

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND
SELF-INSURANCE AND RISK MANAGEMENT FUND
Statement of Cash Flow
for the year ended March 31, 2016

	2016	2015
	$	$
Cash provided (used) by:		
Operating Activities		
Annual surplus	525,578	807,577
Changes in:		
Accounts receivable	15,630	21,613
Due from the Province of Prince Edward Island	(1,860,696)	(1,055,160)
Accounts payable and accrued liabilities	(3,110)	6,150
Unearned premiums	-	(501,225)
Reserve for unsettled claims	1,321,939	721,045
Prepaid expenses	659	-
Cash provided by operating activities	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND
SELF-INSURANCE AND RISK MANAGEMENT FUND

Notes to Financial Statements
March 31, 2016

1. Nature of Operations

The Prince Edward Island Self-Insurance and Risk Management Fund (the Fund) was established under Part II of the *Financial Administration Act*. The Fund provides risk management services as well as general liability, errors and omissions, primary property, crime, and automobile liability insurance for government entities. The Fund has risk management obligations that cause it to incur expenses related to claims. The Fund is administered by Treasury Board.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements are prepared in accordance with Canadian public sector accounting standards. Since the Fund has no unrealized remeasurement gains or losses attributed to foreign exchange, derivatives, portfolio investments, or other financial instruments, a statement of remeasurement gains and losses is not prepared.

The following is a summary of the significant accounting policies used in the preparation of these financial statements.

a) Reserve for Unsettled Claims

The reserve for unsettled claims represents management's best estimate of the total costs, including investigation, litigation, and the projected final settlement of specific claims incurred as of the financial statement date. It also includes a general reserve to cover possible claims incurred as of the financial statement date but not yet reported to management.

b) Prepaid Expenses

Prepaid expenses include payments for insurance and are expensed over the periods expected to benefit.

c) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

d) Recoveries

Recoveries represents management's best estimate of the full amount of costs that can be recovered or are receivable, less any amounts that are uncollectible. Claim recoveries include amounts recovered or receivable from both first and third parties in relation to individual claims.

2. Summary of Significant Accounting Policies (continued...)

e) Use of Estimates and Measurement Uncertainty

The preparation of the Fund's financial statements, in conformity with Canadian public sector accounting standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The items requiring the use of significant estimates are the reserve for unsettled claims and claim recoveries. The reserve for unsettled claims arises from estimates of anticipated costs such as professional expenses and damages to settle claims that are currently open. The amount also represents an estimate for those incidents that have been incurred but not reported to management as of the financial statement date. At March 31, 2016, the reserve for unsettled claims and claim recoveries were valued based on an actuarial review. The estimates were determined using accepted actuarial practices. After consultation with the Fund's actuary, management approved these estimates.

3. Financial Instruments

Financial instruments consist of accounts receivable, amounts due from the Province of Prince Edward Island, and accounts payable and accrued liabilities. They are carried at cost, less any provisions on accounts receivable. Provisions are calculated on a specific basis. Due to their short-term nature, the carrying value of these financial instruments approximates their fair value. The Fund is exposed to market, credit, and liquidity risk in relation to its financial instruments as disclosed in Note 12.

4. Accounts Receivable

	2016 $	2015 $
Recoveries	93,890	111,674
Other	11,530	9,376
	105,420	121,050

5. Due from the Province of Prince Edward Island

The amount Due from the Province of Prince Edward Island of $15,024,786 (2015 - $13,164,090) includes $6,887,571 that was invested in Provincial Deposit Receipts until March 31, 1997. At that time, Treasury Board directed the investment be redeemed and replaced by a non-interest bearing account receivable from the province. In lieu of interest on investments, an annual payment of $175,000 is paid by the province to the Fund. The Fund does not maintain its own bank account. All transactions of the Fund are processed through the province's bank account with the net change reflected in the Due from the Province of Prince Edward Island account.

6. Employee Future Benefits

a) Sick Leave

Under existing employment agreements, employees are credited 1.25 days per month for use as paid absences in the year due to illness or injury. Employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the province. Salary expense is included in the financial statements.

b) Pension

Permanent employees of the Fund participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary times the number of years pensionable service for service to December 31, 2013, and two percent of the career average salary indexed with cost of living adjustments after 2013. Indexing is subject to the funded level of the plan after December 31, 2016. The Plan is administered by the Province of Prince Edward Island. The Fund's annual portion of the contributions to the Plan are paid by the province and recognized on the province's financial statements. Any unfunded liability is the responsibility of the province and therefore no liability has been recognized in these financial statements.

c) Retirement Allowance

The fund provides a retirement allowance to its classified employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and not included in these financial statements.

7. Reserve for Unsettled Claims

	Liability $	Property $	Auto $	Total 2016 $	Total 2015 $
Reserve, beginning of year	5,512,813	256,504	192,278	5,961,595	5,240,550
Changes in year:					
Settlement costs paid	(187,292)	(190,355)	(218,176)	(595,823)	(638,610)
Professional fees paid	(795,560)	(27,761)	(31,904)	(855,225)	(906,472)
Increase in claims expense	2,497,263	159,966	115,758	2,772,987	2,266,127
Net change in reserve	1,514,411	(58,150)	(134,322)	1,321,939	721,045
Reserves, end of year	7,027,224	198,354	57,956	7,283,534	5,961,595

8. Revenue - Insurance Premiums

	2016 $	2015 $
General liability, errors, and omissions	2,177,459	2,125,667
Primary property and crime	1,653,338	1,617,922
Automobile liability	583,207	575,560
General government	154,000	152,000
	4,568,004	4,471,149

9. Claim Recoveries

	2016 $	2015 $
General liability, errors, and omissions	242,785	163,514
Change in estimated recoveries	34,389	7,000
	277,174	170,514
Primary property and crime	42,489	28,582
Change in estimated recoveries	(23,494)	(37,665)
	18,995	(9,083)
Automobile liability	83,549	49,791
Change in estimated recoveries	(28,677)	16,904
	54,872	66,695
	351,041	228,126

The Fund has recorded recoveries of $214,656 (2015 - $154,066) from the province with respect to one unsettled claim.

10. Consulting Expense

	2016 $	2015 $
Consulting - risk management	86,010	57,010
Consulting - legal	45,000	45,000
	131,010	102,010

11. Insurance Premiums Expense

	2016 $	2015 $
General liability, errors, and omissions	718,778	718,120
Primary property and crime	581,707	575,888
Automobile liability	149,490	149,490
	1,449,975	1,443,498

12. Financial Management

The Fund is exposed to market, credit, and liquidity risk from its financial instruments. An analysis of these risks is provided below.

Market Risk

Market risk is comprised of currency, interest rate, and price risk. The Fund does not hold or operate in foreign currency and thus market risk is derived from interest rate and price risk. Changes in interest rates significantly impact insurance companies and thus could increase the cost of insurance premiums paid by the Fund. This risk is mitigated through the use of independent consultants and brokers to negotiate rates from reputable insurers and to monitor the market place for changes that could impact the Fund.

Credit Risk

The Fund is exposed to credit risk with respect to accounts receivable. The Fund mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that the majority of the receivables are due from the Province of Prince Edward Island who controls 100 percent of the Fund. The Fund has no impaired accounts receivable at March 31, 2016.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet all its cash outflow obligations as they come due. The Fund mitigates this risk by monitoring the level of its financial assets and the growth of the same and by purchasing excess insurance to provide additional liability coverage on individual claims.

12. **Financial Management (continued...)**

The self retention limits for the Fund per claim in the current fiscal year were:

Liability	$5,000,000	and	$1,000,000 (Medical Malpractice)
Property	$ 250,000	and	$ 100,000 (Health PEI), $25,000 (QEH)
Auto	$1,000,000		

Additional coverage from excess insurers:

Liability	$10,000,000	and	$ 19,000,000 (Medical Malpractice)
Property	$50,000,000	and	$299,160,000 (QEH)
Auto	$19,000,000		

13. **Related Party Transactions**

Premiums collected and first party claims paid are with government entities. Certain costs incurred by the province on behalf of the Fund are not reflected in these financial statements. These costs include office accommodations, equipment and support, other employee benefits, and administrative expenses.

14. **Budgeted Figures**

Budgeted figures have been provided for comparative purposes and were derived from the estimates approved by Treasury Board.